TECHNICAL NOTE ON ALLOCATION OF TRANCHE 4 OF COVID-19 LOCAL AUTHORITY FUNDING

On 21 October, the Secretary of State for Local Government provided more detail about the over £1 billion of additional support for the Local Authorities to address the pressures of the COVID-19 pandemic announced by the Prime Minister on 12 October. Of this funding, he announced that £919 million would be provided in un-ringfenced grant funding.

This technical note provides additional details for finance and other professionals in the sector on how this £919 million is allocated.

Methodology Summary

The COVID-19 Relative Needs Formula developed for the July (Tranche 3) Allocations has been used as the basis of the allocations of this fourth tranche. The method takes account of allocations to authorities across previous tranches of funding, but ensures that all authorities receive at least £100,000[1] of additional funding from this tranche.

Allocation Methodology

The method for allocating the fourth tranche of COVID-19 funding to each Local Authority is as follows:

1. Using the total quantum of £919 million, we allocate the Isles of Scilly an amount proportional to their share of the 2020/21 England national population. The remaining steps apply to all other local authorities except the Isles of Scilly[2].

2. After subtracting the Isles of Scilly's allocation we take the remaining total quantum and add this to the total of tranches 1-3 for COVID-19 funding of £3.634[3] billion to give a total funding for tranches 1-4 of £4.553 billion.

3. To this total funding of £4.553 billion we apply the COVID-19 funding Relative Needs Formula (RNF) used for the third tranche of funding (further detailed methodology can be found in Annexes A and B of this document) to give a notional amount local authorities would have been funded had the RNF been used to distribute the total funding for tranches 1-4.

4. We next take for every local authority their notional allocations and compare with their actual total funding for tranches 1-3:
    a. Where notional allocation (tranches 1-4) ≤ actual total funding (tranches 1-3); a local authority is initially given zero allocation for the fourth tranche.
    b. Where notional allocation > actual total funding; a local authority is initially given the difference between these two scaled proportionately to fit the quantum available[4].

5. The final step is to then apply a funding floor of £100,000 for all local authorities in step 4:

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[1] Fire and Rescue authorities receive no further funding allocations in this round, and the allocation for the Isles of Scilly is as set out in the allocation methodology.

[2] Standalone Fire and Rescue authorities and the Greater London Authority are not in scope of this tranche of funding.

[3] This is the total funding for tranches 1-3 for all authorities excluding Standalone Fire and Rescue authorities, Greater London Authority and Isles of Scilly.

[4] Scaling factor calculated as: 918966488.347/920318979.163 which is equal to (4th tranche quantum less IoS allocation) / (total sum of LA-level positive differences for notional allocation less actual total funding).

a. Where their indicative allocation is less than the £100,000 funding floor; they are brought up to the floor and this is their final allocation.
b. For all other local authorities; their allocation in 4b. is scaled proportionately to fit the available funding after applying the funding floor[5].

6. The sum of all allocations[6] in step 5 and the Isles of Scilly are equal to the total quantum of £919 million for the fourth tranche.

[5] Scaling factor calculated as: a * (b / c) where, a = LA initial allocation at previous step, b = 4th tranche quantum less IoS allocation less total cost of floor payments and c = For those LAs not on floor: the total sum of their initial allocations at previous step. b = 913,566,488.347 and c = 917,109,173.774

[6] Individual LA allocations subject to grant payment rounding.

ANNEX A – DETAILED METHODOLOGY OF COVID-19 RELATIVE NEEDS FORMULA

This Annex sets out the detailed methodology for the COVID-19 Relative Needs Formula, first used to allocate the £500m of additional funding announced by the Secretary of State for Communities and Local Government on 2 July.[7]

The allocation of this further funding is calculated for each local authority[8] using a relative needs formula (RNF) as follows:

$$Allocation_{LA} = \left(Tier\ Split \times RNF_{LA}^{Lower\ Tier}\right) + \left((1 - Tier\ Split) \times RNF_{LA}^{Upper\ Tier}\right)$$

Where:

$$RNF_{LA}^{Lower\ Tier} = Pop_{LA}^{20/21} \times ACA_{LA}^{Lower\ Tier} \times \left(Per\ Capita\ Amount^{Lower\ Tier} + \left(Deprivation\ Weight^{Lower\ Tier} \times IMD_{LA}\right)\right)$$

$$RNF_{LA}^{Upper\ Tier} = Pop_{LA}^{20/21} \times ACA_{LA}^{Upper\ Tier} \times \left(Per\ Capita\ Amount^{Upper\ Tier} + \left(Deprivation\ Weight^{Upper\ Tier} \times IMD_{LA}\right)\right)$$

Note that Shire Counties do not receive a lower tier allocation and Shire Districts do not receive an upper tier allocation. London Boroughs, Metropolitan Districts and Unitary Authorities receive an allocation from both formulas.

Where:

$Tier\ Split$	is the England level ratio of Shire District to Shire County expenditure in April, May and June 2020 from the MHCLG R2 and R3 financial monitoring data. This is approximately 0.21. The unrounded value can be found in the table below.
$Pop_{LA}^{20/21}$	is the ONS population projection for 2020/21 for each local authority[9].
$ACA_{LA}^{Lower\ Tier}$	is the latest Area Cost Adjustment (more detail below) designed for use in the lower tier Foundation Formula as part of the Review of Relative Needs and Resources.
$ACA_{LA}^{Upper\ Tier}$	is the latest Area Cost Adjustment designed for use in the upper tier Foundation Formula as part of the Review of Relative Needs and Resources.
IMD	is the 2019 IMD Average Score[10].
$Per\ Capita\ Amount^{Lower\ Tier}$	means for every resident, a local authority receives £3.35 of funding (before adjusting for their ACA and deprivation score). The unrounded value can be found in the table below.
$Per\ Capita\ Amount^{Upper\ Tier}$	means for every resident, a local authority receives £4.42 of funding (before adjusting for their ACA and deprivation score). The unrounded value can be found in the table below.

[7] £500m of funding is available in total. £6m has been distributed separately for Unaccompanied Asylum-Seeking Children. The remaining £494m is distributed using the RNF – excluding the Isles of Scilly who have been allocated a top slice based on their share of the 2020/21 national population.

[8] Fire authorities and Greater London authority are not within scope of this tranche of funding. Isles of Scilly due to their specific circumstances have been allocated a top slice based on their share of the national population.

[9] https://www.ons.gov.uk/file?uri=%2fpeoplepopulationandcommunity%2fpopulationandmigration%2fpopulationprojections%2fdatasets%2flocalauthoritiesinenglandtable2%2f2018basedprincipal2019geographies/table24.xls

[10] https://www.gov.uk/government/statistics/english-indices-of-deprivation-2019

$Deprivation\ Weight^{Lower\ Tier}$	means for each IMD average score point, a local authority receives £0.25 of funding per resident (before adjusting for their ACA). For example, an authority with an IMD average score of 10 receives an additional £2.47 of funding for each resident, on top of the per capita amount. The unrounded value can be found in the table below.
$Deprivation\ Weight^{Upper\ Tier}$	means for every resident and each IMD average score point, a local authority receives £0.20 of funding (before adjusting for their ACA). For example, an authority with an IMD average score of 10 receives an additional £2.02 of funding for each resident, on top of the per capita amount. The unrounded value can be found in the table below.

The Per Capita Amounts (and Deprivation Weights) are estimated by the following regressions[11]:

$$\frac{Expenditure_{LA}^{Lower\ Tier}}{Pop_{LA}^{20/21} \times ACA_{LA}^{Lower\ Tier}} = \alpha^{Lower\ Tier} + \beta^{Lower\ Tier} IMD_{LA}$$

$$\frac{Expenditure_{LA}^{Upper\ Tier}}{Pop_{LA}^{20/21} \times ACA_{LA}^{Upper\ Tier}} = \alpha^{Upper\ Tier} + \beta^{Upper\ Tier} IMD_{LA}$$

Where:

$Expenditure_{LA}^{Lower\ Tier}$	is local authority total expenditure pressure in April, May and June from MHCLG financial monitoring data. For Shire Districts, this is simply total expenditure. For London Boroughs, Metropolitan Districts and Unitary Authorities this is total expenditure multiplied by $Tier\ Split$.
$Expenditure_{LA}^{Upper\ Tier}$	is local authority total expenditure pressure in April, May and June from MHCLG financial monitoring data. For Shire Counties, this is simply total expenditure. For London Boroughs, Metropolitan Districts and Unitary Authorities this is total expenditure multiplied by 1 minus $Tier\ Split$.

All other variables are defined as above.

Worked examples

Single Tier Area

Consider a Local Authority with a population of 300,000, an IMD average score of 20 and an Area Cost Adjustment of 1.05 (assume the lower and upper tier ACA score are the same for simplicity).

$$RNF_{LA}^{Lower\ Tier} = 300{,}000 \times 1.05 \times (£3.35 + (£0.25 \times 20)) = £2.6m$$
$$RNF_{LA}^{Upper\ Tier} = 300{,}000 \times 1.05 \times (£4.42 + (£0.20 \times 20)) = £2.7m$$

$$RNF_{LA} = (0.21 \times £2.6m) + \big((1 - 0.21) \times £2.7m\big) = £2.6m$$

Shire County

Consider a Shire County with a population of 500,000, an IMD average score of 15 and an Area Cost Adjustment of 0.95.

$$RNF_{LA}^{Lower\ Tier} = 0$$

[11] City of London is not included in the regressions as it is considered an outlier, however it receives an allocation using the regression outputs in the same way as other authorities.

$$RNF_{LA}^{Upper\ Tier} = 500{,}000 \times 0.95 \times (£4.42 + (£0.20 \times 15)\ ) = £3.5m$$

$$RNF_{LA} = (0.21\ \times 0) + \big((1 - 0.21)\ \times £3.6m\big) = £2.8m$$

Note: numbers in the allocations table may differ due to rounding.

Per Capita Amounts, Deprivation Weights and the Tier Split

Variable	Coefficient/Value
$Per\ Capita\ Amount^{Lower\ Tier}$	3.346861996716
$Deprivation\ Weight^{Lower\ Tier}$	0.2470740827349
$Per\ Capita\ Amount^{Upper\ Tier}$	4.420628067115
$Deprivation\ Weight^{Upper\ Tier}$	0.2017662838806
$Tier\ Split$	0.2133530463876

ANNEX B - AREA COST ADJUSTMENT

As shown above, the allocation formula for the third tranche of COVID-19 funding includes an Area Cost Adjustment (ACA), to take account of the varying costs of delivering services across the country. The ACA is used both to deflate reported expenditure prior to the regression analysis used to calculate the RNF and to reflate final allocations. The ACA used in this formula is the updated and improved version being developed as part of the Review of Relative Needs and Resources (RRNR). Details of the methodology behind this ACA are outlined in the December 2018 RRNR consultation[12] and a Ministry of Housing, Communities and Local Government Technical Working Group paper which is published on the Local Government Association website.[13]

This ACA continues to base the labour cost adjustment on local wage data (specifically the Annual Survey of Hours and Earnings from 2017 to 2019) which is used to measure the spatial variation in the going rate for similar workers, accounting for the effect of other factors known to affect wages.

Within this adjustment, journey time data is used to capture direct costs through staff time (Accessibility). This provides a good proxy measure of additional costs of operating in more sparse or more dense areas.

The adjustment includes a 'Dispersal' measure based on Department for Transport journey times from Output Areas (average 129 households) to the closest "hub town" (settlement of over 10,000 people). This helps capture costs in terms of employee time and paybill of longer journeys to reach households in order to provide services.

It also includes a 'Traversal' measure based on MHCLG-commissioned journey times from Lower Super Output Areas (LSOA) - defined as between 400 to 1,200 households - to the closest LSOA in an area totalling 10,000 people. This helps capture costs in terms of employee time and paybill of longer journeys between groups of households when delivering services such as waste collection.

The ACA aims to account for factors such as wages, commercial rents and other geographical features which affect the cost of delivering services. As with previous ACAs, this updated ACA continues to adjust for both labour costs - through a Labour Cost Adjustment (LCA) - and premises costs – through a Rates Cost Adjustment (RCA). It also includes several improvements to the accuracy and coverage, including:

- use of more granular levels of geography;
- a more detailed approach to assessing the going market rate for labour and removal of arbitrary lower limits in the labour cost adjustment;
- expanding the RCA to account for commercial rents as well as business rate costs including the use of a more robust data source and methodology; and
- inclusion of an adjustment to address issues of sparsity and density using sophisticated measurements of journey times that avoids 'cliff edges' between local authorities.

The ACA used for this funding does not include a 'remoteness adjustment' as decisions have not yet been taken on this element for the RRNR.

This ACA continues to include a rates cost adjustment with Valuation Office Agency data on local rateable values used to measure the spatial variation in the going rate for similar properties accounting for the effects of building characteristics known to affect valuation. This adjustment is applied to all premises costs. As rateable values for the majority of properties are based on market rents, the rates cost adjustment can be used to adjust for variation in rents paid and / or the income foregone by using space which could otherwise be rented at market rates, and other premises costs, in addition to the cost of business rates.

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[12] https://www.gov.uk/government/consultations/review-of-local-authorities-relative-needs-and-resources

[13] https://www.local.gov.uk/sites/default/files/documents/business%20rates%20hub%20-%20Needs%20and%20redistribution%20working%20group%2025%20June%202019%20-%20Area%20Cost%20Adjustment.pdf

The different components of the ACA are weighted together into a single index for each relevant service. Weights are determined primarily using two data sources: Revenue Outturn (RO) and Subjective Analysis Return (SAR). RO statistics are based on the actual revenue spending of all local authorities in England using the final audited financial accounts where possible. SAR is completed by a sample of authorities in England and gives more detailed breakdowns of spending within services. Since weights are calculated using aggregated data at the service level, the final ACAs for individual authorities are not dependent directly on their RO or SAR return. Once the weights are determined, the indices are combined to form ACAs. Note that the weights are specific to each service, whilst the indices are specific to each local authority. The last full update of the ACA was undertaken in December 2019.

The final ACA for local authority 'i' and service area 'j' is calculated as follows:

$$ACA_{i,j} = \left[\left(Accessibility_i \times Accessibility\ Weight_j\right) + \left(1 - Accessibility\ Weight_j\right) \times LCA_i\right] \times LCA\ Weight_j + RCA_i \times RCA\ Weight_j + Unadjusted\ Weight_j$$

Where:

$$Accessibility_i = 0.5 \times \left(Dispersal_i + Traversal_i\right)$$

Weights

Formula	LCA	RCA	Accessibility	Unadjusted
Lower Tier Foundation Formula	55%	7%	6% (of the LCA)	38%
Upper Tier Foundation Formula	50%	8%	3% (of the LCA)	42%

The overall results for the ACA for each authority are included in the accompanying allocations spreadsheet.